



August 14, 2024

FROM: David B. Saucier
Director of Investments

RE: 2023 Annual Program Review

Section 166.450 of the Revised Statutes of Missouri requires the Director of Investments of the State Treasurer's office to annually review the Missouri MOST 529 Education Program ("MOST") and report those findings to the MOST Board ("Board"). The director must review five areas:

- Board administration
- Financial status
- Investment policy
- Participation rate
- Continued viability

Accordingly, I am pleased to report the following from my review for calendar year 2023.

I. Board Administration

Ascensus Government Savings Recordkeeping Services, LLC serves as MOST's program manager, record-keeper, distributor and servicing agent. Together with its affiliates, Ascensus Government Savings has overall responsibility for the day-to-day operations of the plan. Ascensus Government Savings assumed responsibility as recordkeeping and servicing agent, for both the Direct and Advisor Plans on June 3, 2006. On February 7, 2011, the Board entered into another contract with Ascensus Government Savings extending through June of 2016.

A RFP for program management services was issued in 2015. On February 8, 2016, a new contract was entered into with Ascensus Government Savings extending the contract service period to June of 2021. Under the terms of the 2016 contract, the Advisor Plan was eliminated and the participants were migrated into the Direct Plan.

In June of 2020, the Board entered into a new contract with Ascensus Government Savings extending the contract service period to June of 2026.

In addition, the Board met quarterly during 2023, as required by law.

II. Financial Status

Below is a review of the financial status of our major partners and a summary of the investment performance of the investment options within the MOST plan.

A. Financial Status of MOST Partners

Ascensus Government Savings is part of Ascensus, Inc., the largest independent retirement and college savings services provider in the United States, helping over 14 million Americans save for the future. With more than 40 years of experience, the firm partners with state governments and financial institutions to offer tailored solutions that meet the needs of financial professionals, employers, and individuals. Ascensus specializes in recordkeeping, administrative, and program management services. As of 3/31/24, the Government Savings organization supported forty-four 529 education savings plans across 27 states and the District of Columbia. This translates to servicing 7.1 million 529 college savings accounts, with total 529 assets under management of over \$203 billion.

The investment manager for the Direct Plan, The Vanguard Group, Inc., remains a strong franchise. Vanguard is one of the world's largest investment companies, offering about 423 low-cost traditional funds and ETFs. As of June 30, 2024, more than 50 million investors have entrusted Vanguard with more than \$9.5 trillion in global assets under management. Vanguard continues to be a leader in the 529 plan industry, evidenced by over \$159 billion in 529 savings and pre-paid tuition plan assets under management. Headquartered in Malvern, Pennsylvania, Vanguard has about 20,000 employees spread across 16 locations worldwide.

B. Performance of MOST Underlying Funds

Overall, 2023 saw positive performance from both the equity and fixed income underlying funds. The equity funds' performance ranged from +11.47% to +26.05%, while the fixed income results were from +2.66% to +8.85%. The results show much better performance from the equity and fixed income underlying funds compared to 2022. Generally speaking, 2023 was a strong year from an investment perspective.

In 2023, the returns on the plan's portfolios – available to participants - ranged from a +2.48% to +25.85%. All 21 portfolios notched a positive return for the year.

Treasurer Malek's office is responsible for monitoring the relative performance of each of the underlying investment portfolios versus an established benchmark. This effectively measures the contribution that the investment manager's expertise has on participants' returns. During calendar year 2023, absolute returns were all positive while one of the portfolios also saw positive relative returns. All but one of the portfolios performed as expected or slightly below its benchmark due to fees. There was one actively-managed fund that trailed its benchmark by more than 250 basis points for one quarter. While index funds are expected to be at or slightly below benchmark, depending on the extent to which they stray from exact matching of the index, actively-managed funds are expected to exceed those benchmarks.

III. Investment Policy

In mid-2007, the Board adopted a formal investment policy governing program investment. The policy establishes objectives for structuring the investment options; formulates policies for

selecting appropriate investment managers and the use of specific investment vehicles; and establishes an investment-performance process for underlying funds in the Plan. The policy is an important statement by the Board in terms of defining its fiduciary responsibilities and standards for Treasurer Malek's office staff and MOST partners.

The investment policy has been amended over the years. In 2008, the Board modified the policy to allow the Director of Investments, rather than the Board, to place a fund on, or release it from, the "Watch List".

In August 2011, the Board lengthened a fund's formal review period – increasing it to three consecutive quarters from two - when looking at relative benchmark performance for the Watch List.

In June 2016, a new Investment Policy was adopted by the Board when the Advisor Plan participants were merged into the Direct Plan and the Advisor Plan was eliminated.

In September 2019, a new version of the investment policy was adopted by the Fitzpatrick Administration, after review, with no substantive changes.

A review of the Policy was conducted in 2022 as required, with no substantive changes made - only changes to marketing responsibilities for the program.

IV. Participation Rate

The following is an examination of the participation rate of the MOST program. By examining the participation rate for the program, we can attempt to gauge the relative success the program has had in reaching the state's residents and encouraging them to increase 529 savings - the original goal of the IRS section authorizing these types of programs. The relative success or failure of states' various 529 programs rests on many different varying factors including the effectiveness of marketing efforts, availability of a state tax deduction, demographic and economic conditions, and cost structures. However, one facet that has remained a constant is the competition for assets among states' program managers, which remains fierce.

A. Growth of Plan in calendar year 2023

The equity markets were up significantly in 2023 after 2022's downturn.

- The DOW was up 16.2%
- The S&P 500 was up 26.3%
- Nasdaq was up 44.7%

The MOST Plan was positively impacted by this market activity in 2023. Assets under management increased by 13.1% during the year - ending 2023 at just over \$4.0 billion.

The number of accounts in the Plan continued to grow in 2023. The Plan experienced a 1.9% net increase in accounts, closing the year out at 192,030 accounts. The vast majority of accounts are Missouri residents which account for 90% of account ownership.

MOST plan participants continue to contribute to their accounts in a meaningful way. Total contributions for the year were up 3.4% compared to 2022, and came in at \$400 million. We are

pleased to see that Missourians continued to invest in the Plan, despite recent inflation, elevated housing costs and other uncertain market conditions.

Total withdrawals for 2023 were at \$449 million, up \$54 million from last year.

B. Comparison of MOST Participation to National Trends

Market conditions improved greatly in 2023 from the previous year, and this had a positive impact on the plan's growth.

As the market conditions improved, the MOST Plan demonstrated strong organic growth. The plan added 14,200 new beneficiary accounts in 2023 (compared to 12,998 in 2022). This represents a 9.25% increase from last year. According to ISS Market Insight (Strategic Insight), in 2023 the average direct sold 529 plan added 15.3% more accounts during 2023.

V. Continued Viability

The MOST 529 Plan remains a viable 529 savings program – aided by the strong partnership with Ascensus and Vanguard. In Ascensus Government Savings' over 18 years of program management, we have experienced strong trends in asset and account growth despite the market turmoil we have experienced.

Additionally, the current contract with Vanguard has built-in fee reductions which makes the plan more cost efficient for the participant.

In recent years, the federal 529 legislation has expanded the qualified uses of a 529 to also include:

- K-12 expenses (*public, private, and religious*)
- Repayment of student loans (*lifetime limit of \$10K per individual*)
- Registered apprenticeship
- The ability to rollover assets into a ROTH IRA (*2024*)

We expect this additional flexibility will continue to help alleviate any concerns about what to do if the beneficiary doesn't go to college and encourage Missourians to open MOST accounts.

Overall, Missouri's MOST 529 Plan remains not only viable, but well positioned for growth as one of the premiere plans in the country.